



**DEFENSE CONTRACT AUDIT AGENCY**  
**DEPARTMENT OF DEFENSE**  
8725 JOHN J. KINGMAN ROAD, SUITE 2135  
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PPD 730.5.50.1

May 17, 2005  
05-PPD-037(R)

**MEMORANDUM FOR REGIONAL DIRECTORS, DCAA**  
**DIRECTOR, FIELD DETACHMENT, DCAA**

**SUBJECT: Audit Guidance on Low Risk Time and Material/Labor Hour Contract Closeout Initiative**

This guidance (i) provides FAOs with procedures for the expedited closeout of Time & Material (T&M) and Labor Hour (LH) contracts of \$1,000,000 or less, and (ii) reiterates the Agency's commitment to proactively work with our customers in expediting the closeout of low risk T&M/LH contracts.

The procedures described below allow for the closeout of low risk T&M/LH contracts prior to completion of the incurred cost audit and without an audit of the final voucher. This memorandum also includes: (i) a risk assessment checklist (Enclosure 1) for evaluating a contractor's eligibility to participate in the initiative, and (ii) pro forma memorandums (Enclosures 2 and 3) to the administrative contracting officer (ACO) when recommending or not recommending a contractor for participation. A list of the top 15 contractors (Enclosure 4), submitting a high volume of T&M/LH contract payment requests during the month of April 2005 is enclosed to assist FAOs in identifying potential contractors for participation. FAO efforts in supporting this initiative should not be limited to these particular contractors and should reflect an ongoing awareness of all contractors with a high volume of low risk T&M/LH contracts under their cognizance. FAOs should maximize the opportunity to engage contractors to participate in the closeout of low value-low risk T&M contracts, where appropriate.

**Background**

In October 2001, DCMA Headquarters proposed a streamlining initiative for closing completed T&M/LH contracts under \$1 million in value. DCMA Headquarters selected their contract management office (CMO) in Manassas, Virginia, as the initial pilot site for the closeout initiative based on the large volume of T&M/LH contracts administered there. The Mid-Atlantic Region was the lead region on the closeout initiative for DCAA, and through the past several years has been very successful in working with DCMA in significantly reducing the number of small dollar, low risk T&M/LH contracts awaiting audit and closure. Based on this success, all FAOs should work with their DCMA counterparts in identifying additional contractor sites throughout the Agency that are candidates to participate in this initiative.

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## Guidance

The DCMA Manassas pilot resulted in a set of “Best Practices” to be used by CMOs and FAOs in furthering this initiative. These best practices are summarized as follows:

- The FAO coordinates with DCMA CMO to develop a list of contractors with physically complete T&M/LH contracts valued \$1 million or less.
- From the list, the FAO selects contractors with 20 or more contracts to perform risk assessments using the risk assessment checklist provided at Enclosure 1.
- The FAO completes the risk assessment checklist on the selected contractors.
- The FAO provides the ACO a memorandum (Enclosure 2) on the low risk contractors stating that the seven low risk criteria have been met and the T&M/LH contracts under \$1 million can be closed without completion of the incurred cost audit and without a final voucher audit.
- The ACO informs the contractor of the initiative and provides a list of contracts for which final vouchers should be submitted.
- The ACO agrees to permit the contractor to submit summary information on an SF 1034, (no SF 1035 needed).
- Periodically the ACO will request the contractor to provide support for selected vouchers. The FAO will assist the ACO by reviewing the contractor’s documentation to ensure that the selected vouchers are properly prepared and supported.
- **Risk Assessment Criteria:** To reduce the risk to the Government of closing these contracts prior to completion of the incurred cost audit, the contractor must meet specific eligibility criteria. After coordinating with the ACO, the FAO should complete a risk assessment checklist (Enclosure 1) for each of the potential contractor participants. In order to be eligible, the contractor must meet all seven of the following criteria:
  1. The contractor has an adequate accounting system.
  2. The contractor has an adequate billing system.
  3. The contractor has an adequate labor accounting system.
  4. Labor floor checks (MAAR 6) have been performed with no significant exceptions.
  5. Purchases existence and consumption (MAAR 13) tests have been performed with no significant exceptions.
  6. There have been no significant exceptions previously taken on final vouchers.
  7. The impact on T&M contracts of questioned G&A costs in prior audits was not significant.
- **Risk Assessment Procedures:** The risk assessment checklist (Enclosure 1) should be completed based on existing information in the FAO files. There should be no need to visit the contractor for purposes of completing the risk assessment checklist. The checklist considers not only the contractor’s systems, but other factors such as whether the previously submitted final vouchers have had significant errors. Another risk

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consideration is that the impact of questioned G&A costs on T&M contracts in prior audits was not significant. Auditors should begin the risk assessment with a presumption of high risk and then move a contractor into the low risk category only after completion of the risk assessment.

In order to ensure accurate and consistent risk assessments, the FAO Manager should review the assessments prior to presenting them to the ACO. After completion of the checklist and determining if the contractor is considered low or high risk, the FAO should contact the ACO to discuss the results of the risk assessment. The auditor should document the results of this discussion at the bottom of the risk assessment checklist prior to submitting the completed risk assessment to the ACO. If the FAO recommends the contractor for participation, the FAO will forward a copy of the risk assessment checklist, along with a cover memorandum (Enclosure 2), to the ACO recommending the closure of T&M/LH contracts without an incurred cost audit or audit of a final voucher. If the contractor is not recommended for the initiative (i.e. contractor is considered high risk), the FAO should forward a copy of the risk assessment checklist along with a cover memorandum (Enclosure 3), to the ACO. For those contractors considered high risk, the FAO should continue to monitor the contractor to assess any change in status. A change in status (from high risk to low risk) that would result in a contractor being eligible to participate in the T&M/LH closeout initiative should be coordinated with the ACO.

- **Initial Coordination with Selected Low Risk Contractors:** After the FAO recommends a contractor for participation, the ACO will arrange a coordination meeting with the contractor to begin the process. The initial meeting should include the ACO, the contractor, and DCAA representatives. The meeting will provide the contractor with an explanation of the process and the benefits of their participation.
- **Final Voucher Procedures for Participating Contractors:** Contractors that agree to participate in the initiative will be required to submit an abbreviated final voucher to the ACO on all completed contracts within a reasonable period of time, (30 days). An abbreviated final voucher is the SF 1034 which shows the summary information on the SF 1034 along with summary information normally contained on the SF 1035 (e.g., total hours, total labor dollars, material, other direct costs, travel, subcontracts, general and administrative expenses, total cumulative amount, total paid-to-date amount, and amount due). The FAO should coordinate with the ACO to agree to a procedure for the FAO to periodically spot-check the abbreviated vouchers to verify the accuracy of the claimed amounts.
- **Monitoring Process:** The FAO should continually monitor any information that would have an impact on the low risk status of the contractor. At a minimum, the risk assessment checklist should be completed annually to assess whether the contractor continues to qualify as a low risk contractor. If an issue or a problem with the contractor is encountered, the ACO should be notified and the contractor should be removed from the closeout initiative until the issue/problem is resolved.

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**Required Action**

A list of 15 contractors with the highest monthly volume of T&M/LH vouchers as of April 2005 is provided at Enclosure 4 to assist FAOs in identifying possible contractors. The list identifies the cognizant CMO but does not provide individual contract amounts. FAOs should review the list to determine if the contractors (if not already participating) meet the eligibility criteria for participation. FAOs should assess, on an ongoing basis, contractors with a high volume of T&M/LH contracts that may meet the criteria for participation in this initiative.

**Concluding Remarks**

FAOs with questions regarding this memorandum should contact their regional offices. Regional personnel with questions should contact the Headquarters, Policy Programs Division, at (703) 767-2270.

/Signed/  
Robert DiMucci  
Assistant Director  
Policy and Plans

Enclosures – 4

1. DCAA Risk Assessment Checklist
2. Sample Memorandum to the ACO - Recommendation
3. Sample Memorandum to the ACO – Non-recommendation
4. T&M/LH Top 15

DISTRIBUTION: C

**RISK ASSESSMENT CHECKLIST FOR ELIGIBILITY OF CONTRACTORS FOR CLOSEOUT OF  
T&M CONTRACTS WITHOUT AN INCURRED COST AUDIT**

Contractor and POC:  
(Name/ Address/email)

DCAA Office:  
(Name/ Address/email)

Risk Assessment Question:		Status (Y or N)	Assignment Number	FY	Explanation
1	The contractor has an adequate accounting system.				
2	The contractor has an adequate billing system.				
3	The contractor has an adequate labor accounting system.				
4	Labor floor checks (MAAR 6) have been performed with no significant exceptions.				
5	Purchases existence and consumption (MAAR 13) has been performed with no significant exceptions.				
6	There have been no significant exceptions with final vouchers.				
7	The impact on T&M contracts of questioned G&A costs in prior audits is not significant.				

Contractor Recommended for T&M Closeout Initiative: \_\_\_\_\_[Yes (low risk contractor)/No (high risk contractor)]

DCAA discussed Risk Assessment with ACO (Yes/No)\_\_\_\_\_, date\_\_\_\_\_

Name of DCAA Auditor or Supervisor/Title/Date \_\_\_\_\_  
email \_\_\_\_\_

Enclosure 1

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*[MEMORANDUM TO ADMINISTRATIVE CONTRACTING OFFICER RECOMMENDING  
CLOSURE OF TIME AND MATERIAL AND LABOR HOUR CONTRACTS  
WITHOUT AN INCURRED COST OR FINAL AUDIT]*

(DATE)

MEMORANDUM FOR COMMANDER, \_\_\_\_\_

ATTENTION:     (insert ACO)    

SUBJECT:     Recommendation for Contract Closure Without an Incurred Cost or Final Audit  
              for Time and Material and Labor Hour Contracts Less than \$1 Million for  
                  (insert Company Name, City, and State)    

As part of our efforts to assist in the expedited closeout of low-risk contracts, we have identified (insert Company Name) as having met specified criteria and is therefore a candidate for closing time and material and labor hour contracts less than \$1 million as soon as physically complete without the performance of an incurred cost or final voucher audit. We have enclosed a copy of the completed risk assessment checklist for your use. The following specified criteria were used as the basis for our recommendation:

1. The contractor has an adequate accounting system.
2. The contractor has an adequate billing system.
3. The contractor has an adequate labor accounting system.
4. Labor floor checks have been performed with no significant exceptions reported.
5. Tests of materials and purchases have been performed with no significant exceptions reported.
6. There have been no significant exceptions with final vouchers.
7. The impact on T&M contracts of questioned G&A costs in prior audits has not been significant.

If you have any questions, please contact Mr./Ms. \_\_\_\_\_, Supervisory Auditor, or Mr./Ms. \_\_\_\_\_, Auditor, at (xxx) xxx-xxxx , by FAX at (xxx) xxx-xxxx, or by email at \_\_\_\_\_.

(NAME)  
Branch Manager

Enclosure  
DCAA Risk Assessment Checklist

*[MEMORANDUM TO ADMINISTRATIVE CONTRACTING OFFICER NOT RECOMMENDING  
CONTRACTOR PARTICIPATION IN TIME AND MATERIAL AND LABOR HOUR CONTRACT  
CLOSEOUT INITIATIVE]*

(DATE)

MEMORANDUM FOR COMMANDER, \_\_\_\_\_

ATTENTION:   (insert ACO)  

SUBJECT:   Non-recommendation of (insert Company Name, City, and State) for Participation  
          in Time and Material and Labor Hour Contract Closeout Initiative

We have performed a risk assessment of (insert Company Name) as part of our efforts to identify contractors for participation in the expedited closing of low risk time and material and labor hour contracts. As a result of our risk assessment, we have determined that (insert Company Name) does not meet the specified criteria for participation at this time. We have enclosed a copy of the completed risk assessment checklist for your use. We will continue to monitor (insert Company Name) to assess any changes that would make them eligible for participation. We will coordinate with you in the event the contractor's status for participation changes (from high risk to low risk).

If you have any questions, please contact Mr./Ms. \_\_\_\_\_, Supervisory Auditor, or Mr./Ms. \_\_\_\_\_, Auditor, at (xxx) xxx-xxxx , by FAX at (xxx) xxx-xxxx, or by email at \_\_\_\_\_.

(NAME)  
Branch Manager

Enclosure  
DCAA Risk Assessment Checklist

Top 15 Contractors Submitting MOCAS T&M/LH Vouchers  
for the Month of April 2005

FAO Code	DCMA Administration Office	CAGE Code	Contractor	Contractor Address		# Vouchers	Value of Vouchers
CON_OFFC_CD	ADMIN_BY_N	PRIME_CAGE	PRIME_NAME	CITY	STATE	COUNT	DOLLARS
6341	DCMA DAYTON PH 937 656 3072	2AAC6	LOCKHEED MARTIN	MARLTON	NJ	147	15,822,783
3311	DCMA DAYTON PH 937 656 3072	2AAC7	DYN CORP//AEROSPACE TECHNOLO	FORT WORTH	TX	933	29,060,979
3121	DCMA DENVER	1EGN3	CH2M HILL INC.	ENGLEWOOD	CO	91	3,240,461
1201	DCMA HUNTSVILLE	0JLS6	BAE SYSTEMS ANALYTICAL	HUNTSVILLE	AL	96	9,298,922
1271	DCMA ST PETERSBURG	00724	RAYTHEON COMPANY	SAINT PETERSBURG	FL	79	2,543,630
1301	DCMA ORLANDO	60877	SUPPORT SYSTEMS ASSOCS INC	MELBOURNE	FL	98	2,037,489
1641	DCMA DAYTON PH 937 656 3072	9J721	MTC TECHNOLOGIES INC	DAYTON	OH	84	6,478,183
2161	DCMA BOSTON	0STF3	SENCOM CORPORATION	BILLERICA	MA	74	6,996,045
2701	DCMA G D GOVT SYS CORP	2D423	GENERAL DYNAMICS NETWORK	NEEDHAM	MA	93	10,646,116
3531	DCMA DAYTON PH 937 656 3072	2AAC4	L-3 COMMUN VERTEX AEROSPACE	OKLAHOMA CITY	OK	327	22,644,510
3531	DCMA DAYTON PH 937 656 3072	2AAC5	LEAR SIEGLER SERVICES INC	MIDWEST CITY	OK	155	20,080,344
3541	DCMA TWIN CITIES	90536	LOCKHEED MARTIN CORPORATION	EAGAN	MN	74	3,212,838
4171	DCMA SAN DIEGO	0T5L1	SCIENCE APPLICATIONS INTL	SAN DIEGO	CA	94	5,371,128
4171	DCMA SAN DIEGO	52302	SCIENCE APPLICATIONS INT'L	SAN DIEGO	CA	90	5,333,857
6141	DCMA MARYLAND 410 962 9800	1WAV4	ARINC ENGINEERING SVCS LLC	ANNAPOLIS	MD	115	22,379,763